CONCURRENCE IN SENATE AMENDMENTS
AB 880 (Bennett)
As Amended August 20, 2026
Majority vote

SUMMARY

This bill would revise the California Prompt Payment Act (PPA) by requiring state agencies to reimburse a nonprofit grantee′s indirect costs at specified rates and removes the $500,000 cap that previously exempted certain Medi-Cal-related payments from penalty provisions. Additionally, this bill narrows the circumstances under which the state can dispute an invoice and expands the definition of ″grant″ to include agreements with nonprofit organizations, as specified. Specifically, *this bill:*

1) Revise the definition of ″grant″ to also mean a signed final agreement between a state agency and a nonprofit organization and deletes the $500,000 exception in current law.

2) Remove the existing definition of ″nonprofit service organization″ and instead defines ″nonprofit service organization″ to mean an organization that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

3) Revise the existing condition in law regarding discrepancies to be of an amount greater than $250 or 5% of the invoice or claimed amount, whichever is less, in order to qualify as a reasonable cause for the state agency to dispute it.

4) Require a state agency administering a grant program to, when awarding a grant, reimburse the grantee′s indirect costs as requested by the grantee, as specified.

5) Prohibit a state agency from reimbursing indirect costs unless the grantee disclosed the requested rate in their grant application.

6) Applies these provisions to any state-administered grant program, regardless of whether it is funded by state funds, federal funds, or a combination of both.

7) Specify that this bill requires a state agency to reimburse a grantee′s indirect cost not to exceed 35% of the total grant award.

Senate Amendments
1) Provide that, notwithstanding the indirect cost rate, as specified, the total reimbursable indirect costs for any grant awarded under this bill shall not exceed 35% of the total grant award, as specified.

2) Add coauthors.

COMMENTS

Background.

California's Prompt Payment Act. Under the PPA, state agencies that acquire property or services pursuant to a contract with a business are required to make payment on the date required by the contract, or within 45 days of the state agency′s receipt of an undisputed invoice. If this requirement is not met, state agencies must automatically calculate and pay appropriate late payment penalties as specified in Government Code Section 927, et seq. A late payment may occur for a variety of reasons, including administrative decisions relating to cash flow, bond sales, or delays in meeting conditions set forth in federal legislation.

Existing law specifies that state agencies pay applicable penalties, without requiring the claimant to submit an additional invoice for these amounts, whenever the state agency fails to submit a correct claim to the State Controller by the required payment approval date and payment is not issued within 45 calendar days from the state agency receipt of an undisputed invoice. Penalties paid by a state agency to a certified small business, nonprofit organization, nonprofit public benefit corporation, and a small business or nonprofit that provides services or equipment under Medi-Cal shall be calculated at a rate of 10% above the United State Prime Rate on June 30th of the prior year.

Additionally, the PPA provides that if the Controller fails to make payment within 15 calendar days of receipt of the claim from a state agency, and payment is not issued within 45 calendar days from state agency receipt of an undisputed invoice, the Controller shall pay applicable penalties to the claimant without requiring that the claimant submit an invoice for these amounts. If the claimant is a resource conservation district, a certified small business, a nonprofit organization, a nonprofit benefit corporation, or a small business or nonprofit organization that provides services or equipment under the Medi-Cal program, the controller must pay a penalty at a rate of 10% above the United State Prime Rate on June 30 of the prior fiscal year, as specified.

However, existing law specifies that for the late payment penalty provisions of the PPA described above, a nonprofit organization is only eligible to receive a penalty payment if the contract or grant is an amount less than $500,000. Since 2013, the Department of General Services (DGS) has overseen the PPA to ensure that government agencies, in a timely manner, pay their contracts awarded to a certified small business or nonprofit. The PPA indicates that nonprofits are only eligible to receive a penalty payment if the grant or contract awarded is an amount less than $500,000. Hence, the PPA only applies to a limited set of grants, excluding numerous nonprofits that provide essential services to California communities.

This bill revises the definition of the term "grant" in the PPA to include a signed final agreement between any state agency and a nonprofit, and deletes the $500,000 exception in the act. Additionally, this bill requires the discrepancy to be of an amount greater than $250 or 5% of the invoice or claimed amount, whichever is less, in order to qualify as a reasonable cause for the state agency to dispute it.

Negotiated Indirect Cost Rate Agreements. The federal Office of Management and Budget (OMB) issued rules in 2014 that requires governments that hire nonprofits at all levels – local, state, and federal – to reimburse those nonprofits for their reasonable indirect costs when federal dollars are part of the funding stream. The federally negotiated indirect cost rate (NICRA) allows the Grants or Contracting officer to calculate the appropriate allocation of indirect costs associated and streamline the process. In addition, the OMB Uniform Guidance streamlines and clarifies cost allocation and other rules related to government grants and contracts, removing some areas of confusion and inconsistency while treating more of a nonprofit's expenses as direct costs.

The Uniform Guidance expressly requires pass-through entities (typically states and local governments) using federal funds and all federal departments/agencies to reimburse a nonprofit for the reasonable indirect costs it incurs. Nonprofits that have never had a federally approved NICRA can elect either the de minimis rate of 10% of their modified total directs costs or negotiate a higher rate in accordance with the federal cost principles. Nonprofits that have already negotiated a federal NICRA must be paid that amount. Generally, the mandate to pay indirect costs applies to most federal grant funds.

This bill similarly outlines guidelines for state agencies administering grant programs to reimburse grantees for their indirect costs. Grantees can choose from one of the three rates for reimbursement outlined in the bill: their federal NICRA, a flat 10% rate on direct costs, or a rate negotiated with another state agency within the last five years.

According to the Author
According to the author′s office, ″California′s nonprofits are the backbone of our communities, and the state should ensure, like the federal government does, that all costs are covered. The state relies on our nonprofit partners to serve so many Californians, we should treat them as equally as the federal government does.″

Arguments in Support
This bill is sponsored by the California Association of Nonprofits (CalNonprofits) and supported by a large coalition of nonprofit organizations. CalNonprofits writes, ″AB 880 levels the playing field for nonprofits regarding prompt payment on grants/contracts and by appropriately reimbursing nonprofit partners for real indirect costs. Too many nonprofit reimbursement requests are delayed because there is no incentive to prioritize them, which disadvantages organizations that are working to support California communities and growing our economy. AB 880 will require timely payments to nonprofits for the services they provide by closing a problematic loophole in the state′s PPA and improve coverage of nonprofits′ indirect costs, consistent with the federal government′s approach.″

Arguments in Opposition
None on file.

FISCAL COMMENTS

According to the Senate Committee on Appropriations, ″DGS estimates costs of $174,000 annually for the first two years to update regulations and the State Contracting Manual (SCM). Additionally, DGS anticipates $85,000 in ongoing annual costs to manage an increase in workload to calculate invoice discrepancies, resolve errors with contractors, and handle contract (Service Revolving Fund).

Unknown, potentially significant increase in state contracting costs, to the extent that raising the PPA cap for nonprofits results in the state paying more late penalties. Actual costs will depend on individual contract terms and agency capacity to process the expanded scope of payments on time.

Unknown, potentially significant cost pressures for state agencies. Allowing grantees to select indirect cost reimbursement rate of up to 35 percent will likely increase the portion of overall grant funding spent on a grantee′s indirect costs (General Fund, special fund, and federal funds). Because this bill does not increase total funding for individual programs, paying higher overhead reimbursements means less money remains for a program′s authorized core purpose. Actual costs will range from absorbable to hundreds of thousands of dollars per entity, depending on their specific contracting activities and grant terms.″

VOTES:

ASM GOVERNMENTAL ORGANIZATION: 21-0-1
YES: Blanca Rubio, Davies, Alvarez, Berman, Bryan, DeMaio, Dixon, Fong, Gabriel, Gipson, McKinnor, Nguyen, Pacheco, Ramos, Michelle Rodriguez, Sanchez, Solache, Soria, Ta, Valencia, Wallis
ABS, ABST OR NV: Carrillo

ASM APPROPRIATIONS: 14-0-1
YES: Wicks, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Hart, Pacheco, Pellerin, Solache, Ta, Tangipa
ABS, ABST OR NV: Sanchez

ASSEMBLY FLOOR: 79-0-0
YES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

UPDATED

VERSION: August 20, 2026

CONSULTANT: Eric Johnson / G.O. / (916) 319-2531 FN: 0004099